

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7973**

**BILL NUMBER:** HB 2018

**DATE PREPARED:** Jan 29, 2001

**BILL AMENDED:**

**SUBJECT:** Elimination of School General Fund Property Tax.

**FISCAL ANALYST:** Bob Sigalow

**PHONE NUMBER:** 232-9859

**FUNDS AFFECTED:** X

X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			
State Expenditures		134,400,000	414,600,000
Net Increase (Decrease)		(134,400,000)	(414,600,000)

**Summary of Legislation:** This bill prohibits a school corporation from imposing a General Fund property tax levy beginning in 2006. It provides a property tax replacement credit for school General Fund property taxes in 2002 through 2005, beginning at 20% and increasing by 20% each year.

This bill requires that an additional 20% of the sales tax be deposited into the state General Fund beginning in 2005 and it reduces the amount of sales tax that is deposited into the Property Tax Replacement Fund in 2005.

The bill provides that the sales tax applies to services except for legal and medical services beginning in 2005. It increases the supplemental net corporate income tax from 4.5% to 6% beginning in 2005.

The bill also appropriates \$120 M annually from the state General Fund for distribution to public school corporations throughout the state beginning 2006.

**Effective Date:** Upon passage; July 1, 2001; January 1, 2002; March 1, 2004; January 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** The bill provides a credit of 20% in CY 2002, 40% in CY 2003, 60% in CY 2004, and 80% in CY 2005 on school General Fund property tax levies. Gross school General Fund

property tax levies are estimated to be \$1.76 B in CY 2002, \$1.84 B in CY 2003, \$1.92 B in CY 2004, and \$2.00 B in CY 2005. Under the bill, the reduction in gross school General Fund property tax levies are estimated to be \$352.0 M for CY 2002, \$734.9 M in CY 2003, \$1.15 B in CY 2004, and \$1.60 B in CY 2005. Since the state already pays property tax replacement credits (PTRC) and homestead credits against the gross levy, the state's net additional liability would be less than the gross credit amount. The estimated net state cost is presented in the table below.

Beginning in CY 2006, the bill would prohibit schools from levying a property tax for the school General Fund. However, the bill would also guarantee that each school's General Fund would receive at least as much revenue as it did in the previous year. Absent any other revenue source, the state would be liable for the estimated school General Fund net levy amount plus any other revenues that are tied to the levy and would no longer be received. In CY 2005, School General Fund net levies are estimated at \$1,527.6 M, Local Homestead Credits paid from COIT revenue are estimated at \$43.4 M, and Local Property Tax Replacement Credits paid from CAGIT revenue are estimated at \$28.7 M for a total guarantee of \$1,599.7 M. This amount would be a potential liability to the state for CY 2006 and beyond. The state's guarantee is reflected in the summary table below.

<b>Estimated State Cost to Replace School General Fund Property Tax (In Millions)</b>					
<b>Property Tax Year</b>	<b>% Credit</b>	<b>Estimated Net Credit</b>	<b>Est. Net Guarantee</b>	<b>State Fiscal Year</b>	<b>State FY Cost</b>
CY 2002	20%	\$268.8		FY 2002	\$134.4
CY 2003	40%	\$560.5		FY 2003	\$414.6
CY 2004	60%	\$877.8		FY 2004	\$719.1
CY 2005	80%	\$1,222.1		FY 2005	\$1,049.9
CY 2006			\$1,599.7	FY 2006	\$1,410.9
CY 2007			\$1,599.7	FY 2007	\$1,599.7

The credit for CY 2002 through CY 2005 would be paid from the state General Fund. The bill makes an annual appropriation of \$120 M beginning in CY 2006 from the state General Fund to school corporations.

**Explanation of State Revenues:** Under current law, 40% of sales tax revenue is deposited into the Property Tax Replacement Fund (PTRF). Beginning in FY 2006, this bill would redirect 20% (half of the 40%) from the PTRF to the state General Fund. The amount that would be redirected is estimated at \$922.3 M in FY 2006 and \$959.2 M in FY 2007.

Note: The PTRF is annually supplemented by the state General Fund. Any change in PTRF revenues or expenditures will have a direct impact on the General Fund. The redirection of part of the sales tax proceeds from the PTRF to the General Fund will result in a supplemental transfer from the General Fund to the PTRF in the same amount.

This bill would also impose the sales tax upon services beginning in CY 2005. The additional revenue from

sales tax on services is estimated at \$434.9 M in FY 2005 (½ year), \$939.9 M in FY 2006, and \$1,013.6 M in FY 2007.

Additionally, the bill would increase the corporate Supplemental Net Income Tax (SNIT) rate from 4.5% to 6.0% beginning in CY 2005. The additional revenue from the increase in the SNIT rate is estimated at \$36 M in FY 2005 (½ year), \$75 M in FY 2006, and \$78 M in FY 2007.

The following table summarizes the additional state revenue and the additional state expenditures under this bill. The redirection of sales tax revenue from PTRF to the General Fund is not included in the table because there would be no net effect.

<b>Summary of State Revenues and Expenditures Under Proposal (In Millions)</b>						
	<u><b>FY 2002</b></u>	<u><b>FY 2003</b></u>	<u><b>FY 2004</b></u>	<u><b>FY 2005</b></u>	<u><b>FY 2006</b></u>	<u><b>FY 2007</b></u>
<b><u>REVENUES</u></b>						
SNIT Rate Increase				36.0	75.0	78.0
Sales Tax On Services				434.9	939.9	1,013.6
<b>Total New Revenue</b>				<b>470.9</b>	<b>1,014.9</b>	<b>1,091.6</b>
<b><u>EXPENDITURES</u></b>						
School G.F. Net Credit	134.4	414.6	719.1	1,049.9	611.0	
School G.F. Net Guarantee					799.9	1,599.7
<b>Total New Expenditures</b>	<b>134.4</b>	<b>414.6</b>	<b>719.1</b>	<b>1,049.9</b>	<b>1,410.9</b>	<b>1,599.7</b>
<b>Net State Effect</b>	<b>(134.4)</b>	<b>(414.6)</b>	<b>(719.1)</b>	<b>(579.0)</b>	<b>(396.0)</b>	<b>(508.1)</b>

The bill makes an annual appropriation of \$120 M beginning in CY 2006 from the state General Fund to school corporations.

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill phases out the property tax levy for school General Funds beginning in CY 2002 and eliminates it in CY 2006. Statewide, school net General Fund gross levies are estimated at \$1,343 M in CY 2002, \$1,401 M in CY 2003, \$1,463 M in CY 2004, \$1,528 M in CY 2005, and \$1,593 M in CY 2006. The net levy reduction is estimated at \$268.8 M for CY 2002, \$560.5 M in CY 2003, \$877.8 M in CY 2004, \$1,222.1 M in CY 2005, and \$1,599.7 M in CY 2006. The net levy reductions for CY 2002 through CY 2005 would be replaced by a state-funded credit. The state would then guarantee funding for CY 2006 and beyond at a level equal to the previous year's funding.

Although this bill eliminates school General Fund levies for the general operation and maintenance of the school corporation, it would allow school corporations to continue to levy a school General Fund property tax for certain public libraries, nursery schools, historical societies, art associations, public playgrounds, and the Indianapolis Children's Museum.

Beginning in CY 2006, school corporations that successfully appeal to the School Property Tax Control Board could receive emergency relief from the state in the form of grants, loans, authority to borrow money, advances, permission to use unobligated balances in a construction fund, or any combination of these items.

Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded homestead credit of up to an additional 8%. It is estimated that in CY 2006, school corporations will receive \$43.4 M in COIT homestead revenue to replace school General Fund levies. COIT revenue that is not used to supplement local homestead credit is distributed to counties, cities, and towns. Therefore, the \$43.4 M that school General Funds will receive in CY 2006 under current law would instead be distributed to counties, cities, and towns as a result of this bill.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) allocate local property tax replacement credits to civil taxing units and to school corporations. It is estimated that in CY 2006, school corporations will receive \$30.2 M in CAGIT revenue to replace school General Fund levies. CAGIT revenue that is not used to replace school General Fund levies is distributed to counties, cities, towns, and to other school funds. Therefore, the \$30.2 M that school General Funds will receive in CY 2006 under current law would instead be distributed to counties, cities, towns, and to other school funds as a result of this bill.

The bill also eliminates the County School Distribution Fund and the Supplemental School Operating Reserve Fund in Lake County and the County School Distribution Fund in Dearborn County. The levy for the Lake County School Distribution Fund amounted to \$3,523,000 in CY 2000 and the Dearborn County levy was \$564,000 (school corporations in these counties would lose associated revenue under this provision).

Under this proposal, a tax increment financing (TIF) area would have the ability to place a special assessment on property in the allocation area if the elimination of the school General Fund property tax rate affects the TIF area's ability to repay obligations. The amount of the assessment would be limited to the difference between the total amount due on obligations entered into before April 2, 2004 and the total revenues available to pay them.

This bill provides an alternate method for calculating the amount of Financial Institution Taxes and Auto Excise Taxes to be distributed to school corporations after the elimination of the school General Fund property tax. The new calculation will ensure that the school General Funds will continue to receive Financial Institution Taxes and Auto Excise Taxes in the same amounts as they do under current law.

**State Agencies Affected:** State Board of Tax Commissioners.

**Local Agencies Affected:** School Corporations.

**Information Sources:** Local Government Database.